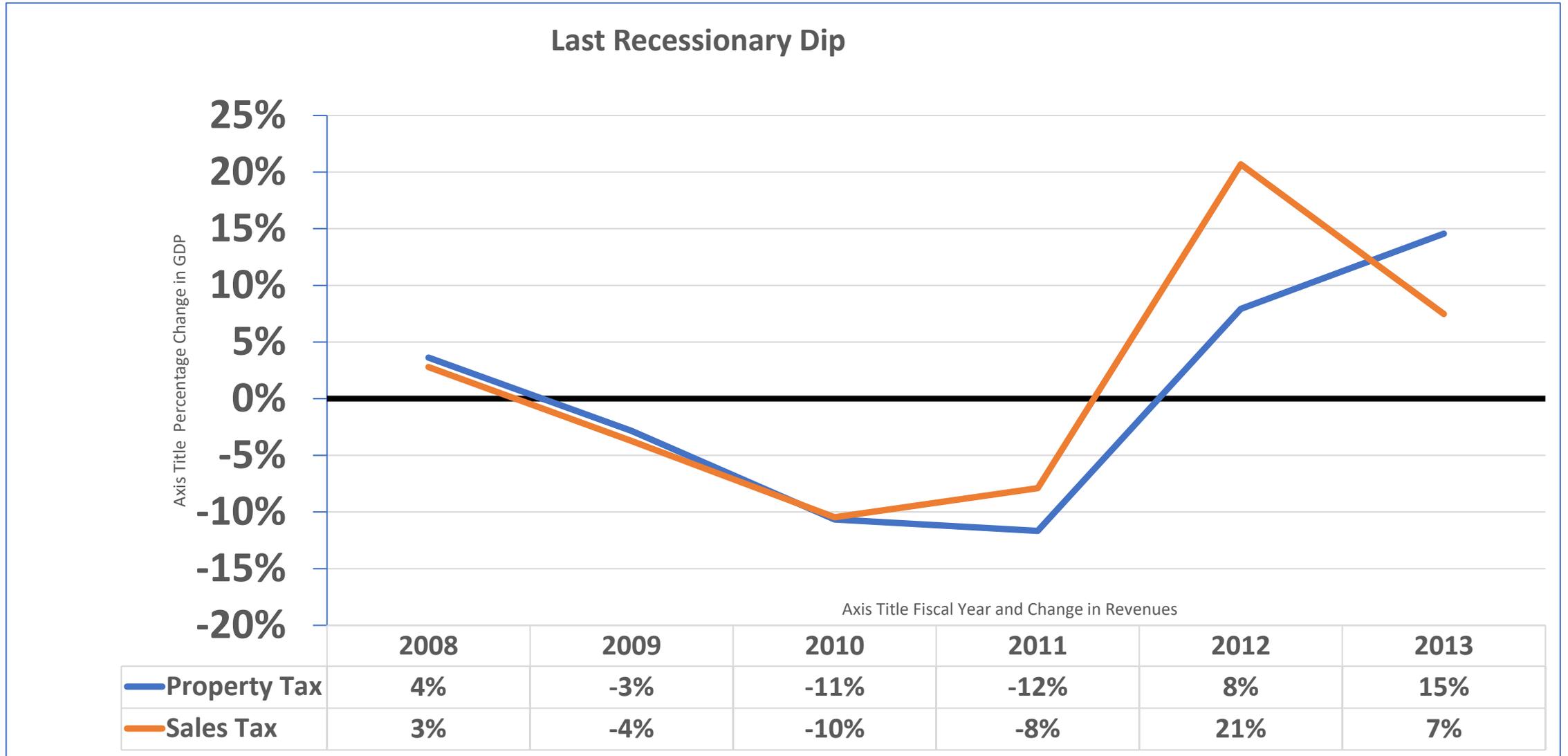


# Fiscal Year 2021-22 Year-end Clean up

Shasa Curl, City Manager  
Nickie Mastay, Deputy City Manager  
Delmy Cuellar, Director of Finance  
Mubeen Qader, Budget Administrator

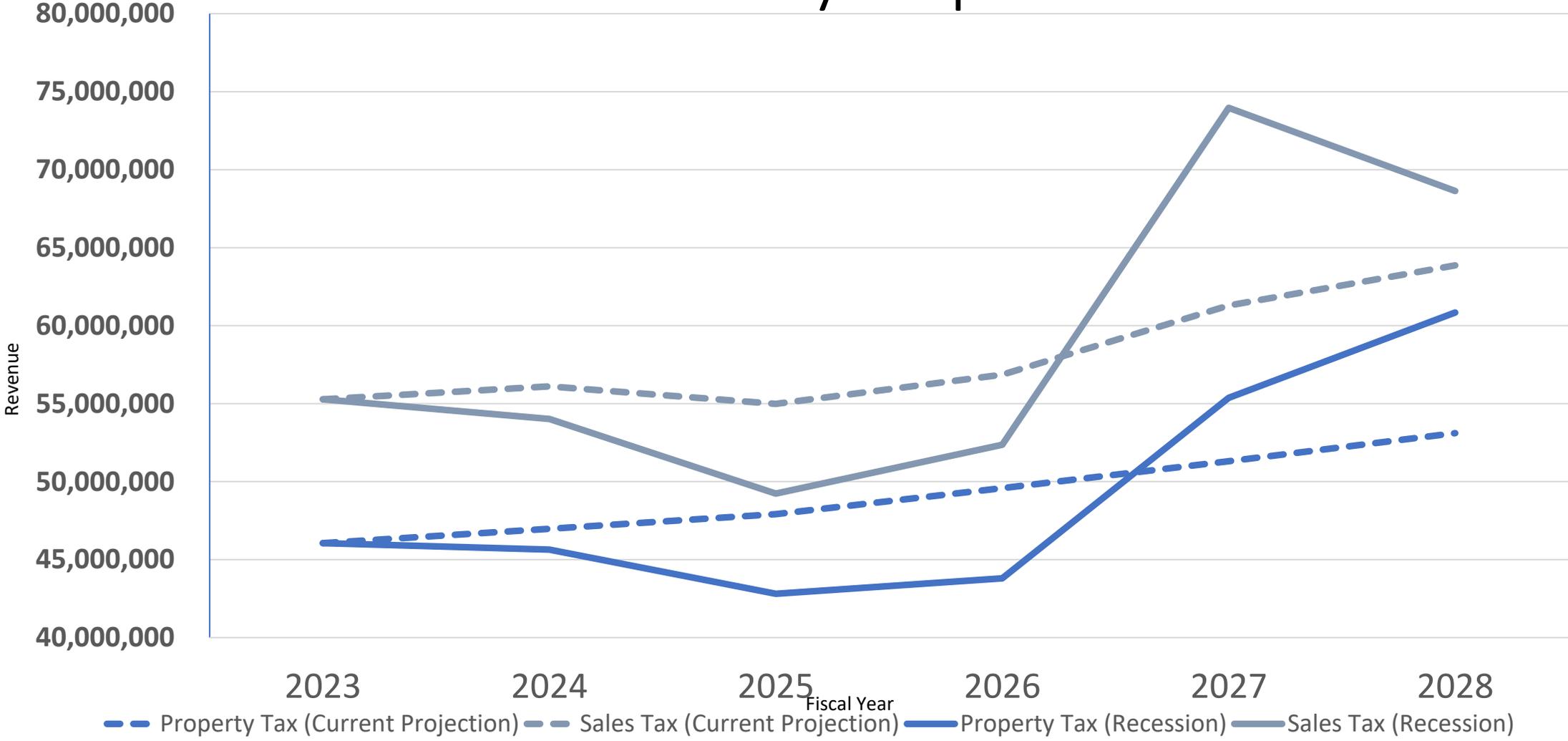
Richmond City Council Meeting, December 6, 2022

# Great Recession (2007-09), Impact on Revenues



Data Source: <https://www.ci.richmond.ca.us/2969/Annual-Comprehensive-Financial-Report-AC>

# If History Repeats



Forecasted Revenues

# General Fund Revenue Loss if History Repeats

REVENUES	2023	2024	2025	2026	2027	2028
Property Tax (Current Projection)	46,056,962	46,978,101	47,917,663	49,580,759	51,310,378	53,109,182
Sales Tax (Current Projection)	55,282,200	56,111,433	54,989,204	56,855,891	61,290,650	63,864,858
Property Tax (Recession)	46,056,962	45,644,434	42,809,453	43,797,942	55,376,051	60,843,479
Sales Tax (Recession)	55,282,200	54,016,348	49,233,785	52,365,993	73,967,300	68,638,826
<b>Revenue Loss</b>	-	<b>(3,428,751)</b>	<b>(10,863,629)</b>	<b>(10,272,714)</b>	<b>16,742,323</b>	<b>12,508,266</b>

\*This loss will be in addition to the existing forecasted losses due to forecasted growth in revenues

# Background:

- October 18, 2022, City Council Proposal:
  - Clearing of negative cash from several Non-General Funds using FY 2021-22 Operating Surplus totaling \$6,556,184
  - Transfer 50 percent of the remaining surplus into Other Post-Employment Benefits (OPEB) 115 trust totaling \$6,102,459
  - Several administrative budget adjustments
  - Release of General Fund commitments and assignments to the Unassigned Fund Balance
- Council Action:
  - Only approved the \$6,102,459 transfer into the OPEB 115 trust
  - Release of commitments and assignments
  - Provide analysis about clearing the negative cash using the General Fund operating surplus.

# Recommended Action:

Agenda Item No. Y.1. DISCUSS and DIRECT the City staff about the use of the estimated Operating Surplus to clear the negative cash under option 1 or option 2 and other administrative budget adjustments listed in the attached resolution – Finance Department (Shasa Curl/Nickie Mastay/Delmy Cuellar 510-620-6790).

# Fiscal Year 2021-22 Revenues (Unaudited)

ACCOUNT DESCRIPTION	Original Budget	Revised Budget	Estimated Actual	% Used
PROPERTY TAXES	47,460,890	45,233,561	47,362,317	105%
SALES & USE TAX	50,060,211	51,993,736	53,453,323	103%
UTILITY USERS TAX	45,452,324	46,522,663	48,373,587	104%
OTHER TAXES	18,269,102	20,953,343	26,573,076	127%
LICENSES PRMITS&FEES	11,806,326	10,354,335	11,132,527	108%
FINES & FORFEITURES	550,000	468,897	405,439	86%
USE OF MONEY&PROPRTY	236,079	236,079	168,426	71%
CHARGES FOR SERVICES	3,383,931	3,424,459	3,752,529	110%
OTHER REVENUE	158,977	1,473,927	804,601	55%
RENTAL INCOME	733,206	747,268	797,763	107%
INTERGOV STATE TAXES	90,000	90,000	127,228	141%
INTERGOV STATE GRANT	160,000	187,878	219,234	117%
INTERGOV OTHER GRANT	153,569	153,569	272,254	177%
PROC FR SLE PROP	100,000	100,000	6,788	7%
LOAN/BOND PROCEEDS	-	36,400	93,800	258%
OPER XFERS IN	9,856,182	10,204,224	9,859,938	97%
<b>Total Revenues</b>	<b>188,470,796</b>	<b>192,180,338</b>	<b>203,402,830</b>	<b>106%</b>

# Fiscal Year 2021-22 Expenditures & Net (Unaudited)

ACCOUNT DESCRIPTION	Original Budget	Revised Budget	Estimated Actual	% Used
SALARIES AND WAGES	75,424,602	75,790,274	70,437,323	93%
PYROLLFRINGE BENEFIT	62,145,202	62,136,825	60,166,323	97%
PROF & ADMIN	11,201,880	16,993,833	10,651,402	63%
OTHER OPERATING	10,680,893	7,222,218	5,441,249	75%
UTILITIES	4,565,743	5,009,003	4,739,848	95%
EQPT & CONTRACT SVCS	2,628,158	2,561,348	2,153,676	84%
PROVISN FOR INS LOSS	25,725	27,673	26,673	96%
COST POOL	14,130,436	14,455,436	14,130,436	98%
ASSET/CAPITAL OUTLAY	1,602,890	1,451,585	1,033,373	71%
DEBT SVC EXPENDITURE	1,065,359	1,065,359	1,054,108	99%
A87 COST PLAN REIMBS	(3,516,104)	(3,516,104)	(3,471,526)	99%
GRANT EXPENDITURES	2,500	82,500	90,781	110%
OPER XFERS OUT	7,884,939	12,801,419	9,908,051	77%
<b>Total Expenditures</b>	<b>187,842,223</b>	<b>196,081,371</b>	<b>176,361,718</b>	<b>90%</b>
<b>Net Surplus/(Deficit)</b>	<b>628,573</b>	<b>(3,901,032)</b>	<b>27,041,113</b>	

# Option 1: Clear Negative Cash at Once

<b>Amount</b>	<b>Fund</b>
\$3,489,599	Fund 1051-Engineering Cost Recovery Fund
\$2,654,027	Fund 4006-Stormwater Fund
\$307,650	Fund 4501-RHA Administration for Building Acquisition
\$104,908	Fund 6999-Payroll Liabilities
<b>\$6,556,184</b>	<b>Total</b>

Option 1 is considered as the most prudent option, as it reduces the audit risk and doesn't inflate the cash balance of the City.

# Option 2: Clear Negative Cash Over Three Years

Line Item	FY2021-22	FY2022-23	FY2023-24	Total
Fund-1051 Engineering Cost Recovery	1,163,200	1,163,200	1,163,200	3,489,599
Fund-4006 Stormwater fund (4% interest rate)	956,375	956,375	956,375	2,869,124
Richmond Housing Authority Payment	307,650			307,650
Payroll Liabilities Reclass	104,908			104,908
Additional Payment to OPEB Trust	1,940,874			
<b>Total</b>	<b>4,473,006</b>	<b>2,119,574</b>	<b>2,119,574</b>	<b>8,712,155</b>

Per City Council direction on October 18, 2022, Option 2 was developed. Please note Option 2 may still affect the auditors' opinion about the financials and has economic risk. The potential loss of revenues due to upcoming economic recession may impact the City's ability to fulfill the proposed payment plan. Also, additional payment into the OPEB trust of \$1,940,874 will be required since the operating surplus will be larger than surplus available under Option 1.

# OPEB Contribution Under Option 2

	10/18/2022	12/06/2022	Variance
OPEB Trust Contribution	6,102,459	8,043,333	1,940,874

## FY2021-22 OPEB Policy (Adopted on January 11, 2022)

- a. The City will meet the objective of placing into Trusts half of any one-time revenues.
- b. The City will place half of any year-end surplus in excess of the City's Minimum Reserve Policy into the Trusts.
- c. The City will seek to contribute the Actuarially Determined Contribution rate annually, though it maintains the flexibility to reduce contributions when fiscally necessary.
- d. For the purposes of the ADC calculation, investment return assumptions will be evaluated by an independent investment advisor on a regular basis (at a minimum of every two years), and should reflect the nature of the investments held in the Plans, and the historical and projected return rates anticipated for the investments.

# Required Reserve Level

- Government Finance Officers Association (GFOA) recommends determining appropriate reserve level based on a local agency's unique risk factors; however, the minimum recommended is 17%.
- On September 20, 2022, the City Council approved an increase to the General Fund minimum required for the reserve level from fifteen percent (15%) to a range of fifteen percent to twenty percent (15%-20%) of the next year's budgeted total expenditures.
- The City of Richmond remains **high risk**. The required reserve level may increase based on the City's specific risks, as required by the California State Auditor's recommendations. The required Corrective Action Plan will be presented to the City Council on December 20, 2022 (for review prior to submission to the State Auditor by the January 9, 2023, deadline).

# Option 1: Estimated Reserve, June 30, 2021-22 (Unaudited)

General Fund Reserve	Amounts
General Fund Operating Surplus	
Operating General Fund Surplus	27,041,113
Transfer to OPEB Trust (approved on 10/18/22)	(6,102,459)
Remaining Operating Surplus	20,938,654
1051-Engineering Cost Recovery	(3,489,599)
4006-Stormwater Fund Advance Write-off	(2,654,027)
RHA Debt Reduction in lieu of Admin Building	(307,650)
Historic Payroll Liability Correction	(104,908)
FY2021-22 Net Operating Surplus	14,382,470
General Fund Unassigned Fund Balance (Reserve)	
Beginning Unassigned Fund Balance (Reserve)	22,285,626
Released Commitments and Assignments	4,201,968
Adjustments to other Fund Balance Categories	6,558,851
FY2021-22 Net Operating Surplus	14,382,470
<b>Ending Unassigned Fund Balance (Reserve 22.95%)</b>	<b>47,428,915</b>

\* Staff Report page 8

# Option 2: Estimated Reserve, June 30, 2021-22 (Unaudited)

General Fund Reserve	Amounts
General Fund Operating Surplus	
Operating General Fund Surplus	27,041,113
Transfer to OPEB Trust (approved on 10/18/2022)	(6,102,459)
Remaining Operating Surplus	20,938,654
1051-Engineering Cost Recovery	(1,163,200)
4006-Stormwater Fund Advance Write-off	(956,375)
RHA Debt Reduction in lieu of Admin Building	(307,650)
Historic Payroll Liability Correction	(104,908)
Additional transfer to OPEB Trust	(1,940,874)
FY2021-22 Net Operating Surplus	16,465,648
General Fund Unassigned Fund Balance (Reserve)	
Beginning Unassigned Fund Balance (Reserve)	22,285,626
Released Commitments and Assignments	4,201,968
Adjustments to other Fund Balance Categories	6,416,547
FY2021-22 Net Operating Surplus	16,465,647
<b>Ending Unassigned Fund Balance (Reserve ~23.89%)</b>	<b>49,369,788</b>

\* Staff Report page 8

# GFOA Guidance on Reserve Level

City staff will also perform analysis around an adequate reserve level considering the risk factors shown below under the GFOA Fund Balance Guidelines for General Fund and bring back a recommendation for the City Council in the coming months. The risk factors are:

- The predictability of its revenues and the volatility of its expenditures
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds
- The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Please see: <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

# Next Steps

- City staff will continue to work on the Annual Audit and prepare an Annual Certified Financial Report (ACFR) and present to the City Council in early 2023.
- Perform Risk Factors Based analysis to determine adequate reserve level per GFOA guidance, which is also one of the recommendations by the California State Auditor.



Thanks

Questions?